

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**AUDIT OF THE
DISTRICT OF COLUMBIA PUBLIC
SCHOOLS' CENTRAL INVESTMENT
FUND AND EXPEDITED PURCHASING SYSTEM**



**CHARLES C. MADDOX, ESQ.
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



July 29, 2003

Paul L. Vance
Superintendent
District of Columbia Public Schools
825 N. Capitol Street, N.E., 8th Floor
Washington, D.C. 20002

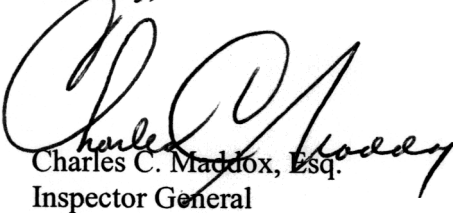
Dear Dr. Vance:

Enclosed is our report summarizing the results of the Office of the Inspector General's Audit of the District of Columbia Public Schools' Central Investment Fund and the Expedited Purchasing System (OIG No. 03-2-12GA).

Although this report contains no recommendations for action, I am pleased that you have reacted positively to the report and especially to the matters of concern. The actions you plan should identify for correction any internal control weaknesses related to the Central Investment Fund and the Expedited Purchasing System.

We appreciate the cooperation and courtesies extended to our staff during the audit. If you have questions, please contact William J. DiVello, Assistant Inspector General for Audits, at the number below.

Sincerely,


Charles C. Maddox, Esq.
Inspector General

CCM/je

Enclosure

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**Audit of the District of Columbia Public Schools’
Central Investment Fund and Expedited Purchasing System**

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Audit of the District of Columbia Public Schools' Central Investment Fund and Expedited Purchasing System

EXECUTIVE OVERVIEW

On February 6, 2003, the Office of the Inspector General (OIG) received an anonymous “tip” to review the Central Investment Fund (CIF) and the imprest fund at the District of Columbia Public Schools (DCPS). The tip stated that a review would reveal that the funds in these accounts would be “ALL GONE.” In response to this tip, the OIG completed an audit of the CIF and imprest fund, which are managed by DCPS.

The CIF consists of donations/grants from private sources, which DCPS officials have deposited into an interest-bearing, checking account. The other fund, the imprest fund, is not a typical petty cash fund in the form of coin or currency. Instead, the District established this imprest fund, also known as the Expedited Purchasing System (EPS), in the amount of \$50,000 and placed it into an interest bearing checking account similar to the CIF. Based upon approved user requests, DCPS issues checks not exceeding \$250 against the imprest fund account. The imprest fund account is periodically replenished with the costs lodged against various District accounting codes.

On February 13, 2003, the OIG initiated a review of both the CIF and the imprest fund. The audit objective was to determine whether the CIF and imprest fund were improperly depleted as alleged. The allegations were not substantiated.

CONCLUSIONS

We found the allegations concerning the balances in the CIF and imprest fund accounts to be unsubstantiated. We obtained independent confirmations from the financial institutions of the balances in these accounts as of the date the referral was made to the OIG. The confirmations found that monies were not depleted as alleged. Further, we tested a sample of transactions made during fiscal year (FY) 2003 and verified that funds were generally used for intended and authorized purposes. We also reviewed the policies and procedures at DCPS to ensure that controls were in place, and operating as designed, to prevent and/or detect fraud, waste, and abuse of funds. Although our report contains no recommendations, we discuss later in this report matters of concern that require further study.

DCPS provided a response to this report (see the Appendix), which shows that it has directed its Office of Compliance to review the imprest fund and to include both the Expedited Purchasing System and the Central Investment fund in its FY 2004 audits of DCPS operations. DCPS's planned actions provide the means to discover and correct any irregularities that we identified as needing further study.

Audit of the District of Columbia Public Schools' Central Investment Fund and Expedited Purchasing System

BACKGROUND

CIF. DCPS established the CIF in December 1982 for the purpose of generating interest on those non-appropriated funds that, prior to that date, had been held in accounts without earning interest. The CIF is comprised of approximately 120 sub-accounts. DCPS establishes sub-accounts upon the receipt of private grants and donations, and establishes a description of the specific purpose and use of the sub-account. Individual sub-account balances range from a few dollars to several thousand dollars. The CIF account had a confirmed balance of \$1,677,732.74 on February 6, 2003.

Imprest Fund. In September 1984, in an effort to expedite small-dollar-value purchases of goods and services within the administrative offices, DCPS implemented the EPS imprest fund. DCPS periodically replenishes the EPS imprest fund by charging the end-use fund appropriate for the purchase. The authorized balance on February 6, 2003, was \$50,000.

The EPS is designed to process checks of up to \$250 in situations where it would be impractical or impossible to go through the normal procurement process. EPS checks may not exceed \$250 per vendor per day, and invoices cannot be split in order to satisfy this requirement. Allowable costs include such items as office supplies, office equipment, and meals to school system employees in conjunction with an authorized DCPS training program if the school system determines that the provision of meals is necessary to achieve the objectives of the training program.

SCOPE AND METHODOLOGY

The audit period covered the first 5 months of FY 2003. We examined 15 CIF expenditures totaling \$7,975 and 13 EPS expenditures totaling \$3,947, along with the related supporting documentation. We tested four sub-accounts of the CIF: (1) Neediest Kids Fund; (2) accounts for discretionary fund purchases accounts; (3) Interest Investment Account; and (4) Certification Fees. We conducted interviews with the employees who are responsible for the monitoring and day-to-day operations of these funds. We also obtained independent confirmations, from the financial institutions where these accounts are held, of balances as of the date the complaint was received. We reviewed controls and procedures, such as the Central Investment Funds Accounting Guide and Policy Manual, dated April 1994. We conducted the audit in accordance with generally accepted government auditing standards and included such tests as we considered necessary under the circumstances.

RESULTS OF AUDIT

- We concluded that the allegation that the CIF balance was “gone” was unsubstantiated. We confirmed that the CIF fund had a balance in excess of

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\$1.6 million on February 6, 2003, the date when the OIG received the anonymous complaint. Generally, DCPS adhered to established policies and procedures governing the accounting for and use of the CIF except as discussed in this report under the heading “**OTHER MATTERS OF CONCERN.**”

- We also concluded that the allegation was unsubstantiated that the EPS imprest fund balance was “gone.” We confirmed that the EPS imprest fund bank balance was \$48,705.43 on February 6, 2003, the date the OIG received the anonymous complaint. The difference in the authorization, \$50,000, and the bank balance is generally attributable to interest earned on the account and expenditures not yet submitted for replenishment. Generally, DCPS adhered to established policies and procedures governing the accounting for and use of the EPS except as noted below in the heading “**OTHER MATTERS OF CONCERN.**”

OTHER MATTERS OF CONCERN

Although our tests were generally designed and limited to show whether the allegations were true, the tests also brought to our attention matters of concern with regard to the adequacy of controls and compliance with existing procedures for both the CIF and the EPS imprest fund.

- **CIF.** Our concerns focus on the discrepancies we observed with regard to the Neediest Kids Fund, the Interest Investment Account, and the actions taken on past audit recommendations.
 - **Neediest Kids Fund.** We reviewed two requests for clothing/coats for specific children totaling \$500 from the Neediest Kids Fund. We also requested copies of invoices and other support for these purchases. These purchases lacked adequate audit trails, although officials provided explanations.

We found that with regard to the first request, coats had not been purchased for the students identified on the request. The requestor told us that by the time the funds were received by the school, the children had obtained coats from another source. We verified that \$300 had been deposited into the school's Student Activity Fund and was available for use should another child need clothing assistance.

With regard to the second request, \$200 had been identified for the purchase of clothing for two students. While the counselor and business manager confirmed that the funds were used for their intended purpose, no one at the school was able to produce copies of the supporting invoices. We were advised that the students were issued uniforms from a school inventory and the fund was used to replace

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the inventory. The requests should be accurate regarding the purpose, and an audit trail should be available for all expenses.

- **Interest Investment Account.** This sub-account was used primarily for payroll checks for employees in instances in which their respective pay was not processed in time for the regular payroll. DCPS officials monitor the amounts that have been paid from the Interest Investment Account to ensure that reimbursements are made. To date, the account was due reimbursement of approximately \$15,700 for payroll expenditures. We did not age the individual amounts due.
- **Status of Past CIF Audit Findings.** The FY 2001 DCPS Management Letter, which was issued in conjunction with the DCPS CAFR, stated that DCPS did not follow the Accounting Guide and Policy Manual (Manual) with regard to the internal control structure designed to safeguard the assets of the CIF. Specifically, DCPS had deposited monies other than donations and grants from private sources (such as teacher certification fees) and disbursed monies without proper authorization required by the CIF and the District of Columbia procurement laws and regulations. The CIF individual accounts that were dormant for more than 5 years were not reviewed and consolidated as required by the Manual.

Further, the Management Letter provided that the CIF was not accounted for in the DCPS general ledger and expenditures were netted from revenues for financial reporting purposes. These conditions are not in accordance with generally accepted accounting principles (GAAP) as applied to expendable and non-expendable trust funds and CIF accounts in the District's System of Accounting and Reporting (SOAR). Lastly, it was recommended that DCPS implement a monthly review process of the CIF to ensure compliance with the Manual.

We questioned DCPS' management regarding progress made to address these issues. We were informed that beginning in FY 2002, the revenue received and the expenditures incurred by the CIF fund were recorded in SOAR on a quarterly basis, in response to the reported finding that CIF activity was not accounted for in the DCPS general ledger according to GAAP for expendable trust funds. Additionally, we were told that DCPS is in the process of hiring a staff accountant to fill a position that has been vacant for over a year. One of the responsibilities of this position is to carefully monitor CIF activity to ensure compliance with the CIF Manual, including closure of dormant accounts. We were also informed that the Certification Fees sub-account of the CIF would be transferred to SOAR as special revenue fund 630 after the budget authorizations are approved.

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In discussions with the auditors who performed the DCPS FY 2002 CAFR, we were told that the conditions noted above do still exist, but to a considerably lesser degree.

- **EPS Imprest Fund.** Our audit disclosed two areas of concern with regard to the EPS Imprest Fund; specifically, its size and apparent discrepancies in several check transactions.
 - We believe that the size (\$50,000) of the EPS imprest fund is not warranted by the amount of expenditures. The justification for the current dollar value of the imprest funds states, "Ideally, an imprest fund level should be set . . . to require reimbursement [replenishment] about once per month." In our opinion, an imprest fund should certainly not be larger than the total amount of average quarterly expenditures. Between November 7, 2001, and May 1, 2003, imprest fund expenditures totaled \$25,205, a quarterly expenditure rate of \$4,200. In our opinion, DCPS would be more efficient if it would return the excess funds (\$45,800) to the Treasury, perhaps lessening cash pressures elsewhere. We have provided our analysis of expenditures to DCPS so that it might study the matter further.
 - We also noted 4 discrepancies during our examination of each of the 13 check transactions that occurred between October 1, 2002, and February 12, 2003.

First, DCPS issued 1 check for \$2,211.59 on November 20, 2002, far in excess of the \$250 limit. DCPS officials explained that this one-time event occurred because a replenishment check contained funds intended for both another imprest fund and the EPS imprest fund. As a result, the \$2,211.59 check was an offsetting transaction. We were advised that the replenishment check containing the funds was recorded as deposited on October 21, 2002, i.e., 31 days earlier. DCPS did not explain why the offsetting transaction remained in the imprest fund a month after deposit. Controls should be strengthened to require DCPS officials to physically return any actual replenishment checks (instead of depositing them in the checking account), which contain amounts intended for purposes other than to exclusively replenish the EPS imprest fund for authorized expenditures.

Second, we noted that DCPS officials approved purchase requests after-the-fact, which weakens controls that are intended to preclude unauthorized transactions. In the one transaction, the requester ordered and received the items on or before June 1, 2002, but the request for the items was initiated on August 14, 2002 (75 days later). In addition, this transaction resulted in an acquisition totaling \$293.97, although only \$250.00 was paid to the requestor thus keeping within the fund's limit of \$250 per transaction.

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Third, a requestor obtained 3 sets of business cards for \$228.85 on October 7, 2002. However, the specific request, dated October 2, 2002, was for a "FAX MACHINE REPLACEMENT" in the amount of \$249.74.

Finally, we noted interest earned on the bank account that, unless offset by banking service fees, should cause the \$50,000 authorization for the fund to be exceeded. Amounts in excess of the authorized fund should be returned to the Treasury. We were advised that service fees had occurred in the past, but we saw no evidence of fees in the period tested.

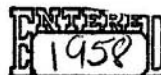
Accordingly, we believe it would be prudent for DCPS's internal auditor to initiate a detailed review of EPS imprest fund transactions to determine whether controls are adequate and working as intended. Furthermore, the review should determine whether duties are adequately segregated so that stakeholders can be assured that the transactions resulted in an appropriate benefit to DCPS and materials and services were delivered to DCPS, as reflected in supporting documentation of the transactions.

**EXHIBIT: DISTRICT OF COLUMBIA PUBLIC SCHOOLS' RESPONSE TO THE
REPORT**



DISTRICT OF COLUMBIA PUBLIC SCHOOLS

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July 14, 2003

Charles C. Maddox, Esq.
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Office of the Inspector General
717 14th Street, NW
Washington, DC 20005

Dear Mr. Maddox:

This letter responds to your request for comment on the draft audit report titled, *Audit of the District of Columbia Public Schools' Central Investment Fund and Expedited Purchasing System* (OIG No. 03-2-12GA).

The District of Columbia Public Schools (DCPS) has reviewed your report including the Matters of Concern. We concur that these items may highlight potential weaknesses within our system of internal control for these funds. In compliance with your recommendation that our Office of Compliance review the EPS imprest fund, I have directed that both the Central Investment Fund and Expedited Purchasing System imprest fund be included in our fiscal year 2004 audits of the DCPS operations.

Should you have any questions on this letter or desire additional information, please contact John Cashmon, the DCPS Director of Compliance, at (202) 442-5656.

Thank you for the opportunity to review this draft report and to provide our comments on its contents.

Sincerely,

Paul L. Vance
Superintendent

cc: John Cashmon